

# FDIC State Profile

Spring 2006

## North Dakota

North Dakota's job growth continued in the fourth quarter.

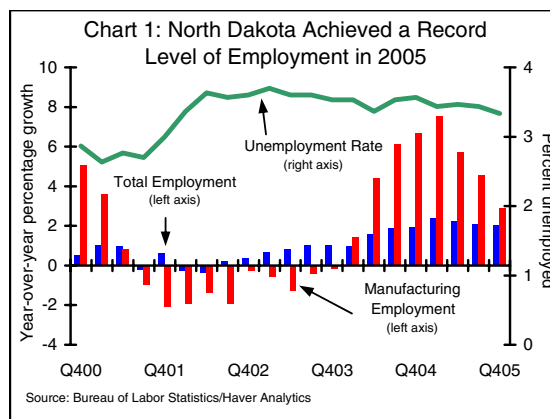
- North Dakota's economy gained 1,700 jobs in the fourth quarter, contributing to a gain of almost 7,000 jobs in 2005, the largest annual increase since 1997. The largest increases occurred in wholesale trade, retail trade, and government. Year-over-year employment growth was 2.0 percent, exceeding the national rate of 1.4 (see Chart 1).
- Strong job growth caused unemployment in the fourth quarter to decline to 3.3 percent compared to the peak of 3.7 achieved in first quarter 2003. The unemployment rate was the second lowest in the United States.

North Dakota's farm income is expected to decline in 2006.

- The United States Department of Agriculture (USDA) has forecasted a 22 percent decline in national farm income from 2005 to 2006 due to lower livestock and crop values and increased energy costs. North Dakota's farm incomes will also decline in 2006, but less significantly due to the state's mix of crops.
- Wheat prices are forecast to remain unchanged from the previous two years, as planted acreage, inventories, and export demand are not expected to change substantially. Corn and soybean prices are forecasted to decline 13 percent and 11 percent, respectively, as two years of record harvests have led to substantial accumulations of inventories (see Table 1).
- Cattle prices will begin to moderate in 2006. The nationwide population of cattle increased in 2005 for the first time since 1994 in response to the high prices enjoyed in 2004 and 2005.

Energy prices for North Dakota farmers are forecasted to rise again in 2006.

- According to the USDA, in February 2006 fertilizer and fuel costs were up 16 percent and 30 percent, respectively, from one year earlier. Overall, fertilizer and fuel costs are forecasted to increase 9.7 percent nationally in 2006 (see Table 2).<sup>1</sup>



**Table 1: Most Commodity Prices Are Expected to Decline in 2006**

	2003	2004	Est. 2005	Forecast 2006	% of ND Ag Cash Receipts
Corn	2.32	2.42	2.06	1.90	6.6
Soybeans	5.53	7.34	5.74	5.50	13.1
Wheat	3.56	3.40	3.40	3.40	26.3
Cattle	84.69	84.75	87.28	85.50	18.1
Hogs	39.45	52.51	50.05	43.50	1.0
Other					34.9

Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock are per hundredweight.

Source: USDA WASDE, February, 2006 USDA/ERS 2005

**Table 2: Higher Energy Costs Are Expected for North Dakota Farmers in 2006**

	Acres* (1,000)	Cost per acre** 2006 estimates		Cost per acre** 2000-2004 Avg.	
		Fuel	Fertilizer	Fuel	Fertilizer
Corn	1,410	41.94	58.25	24.26	42.47
Soybeans	2,950	13.52	10.25	8.49	7.69
Wheat	9,090	16.95	28.24	10.38	21.20

\*Estimated 2005 Planted Acres. \*\*Cost per acre for nation.

Source: USDA/NASS Crop Production, USDA/ERS Fuel by State

<sup>1</sup>NASS, USDA, *Agricultural Prices*, February 28, 2006.

## State Profile

- Rising costs for fertilizer and fuel are in part due to increased global fuel demand and the continued recovery from last year's active hurricane season; in the Gulf region, approximately 17 percent of natural gas production and 25 percent oil production remain off-line.<sup>2</sup>
- Nationally, the USDA estimates that fuel and fertilizer costs accounted for 10.9 percent of total agricultural production costs in 2005, up 11 percent from 2004.

### Insured institutions in North Dakota reported record earnings in 2005.

- North Dakota's insured institutions reported a record median annual return on assets (ROA) ratio of 1.19 percent in 2005. Much of the ROA increase was due to improved net interest margins (NIM).
- The median annual NIM rose modestly to 4.24 percent in 2005 as funding costs increased less rapidly than earning asset yields (see Chart 2). In 2005, the spread between loan yields and funding interest costs widened slightly.
- A sizeable shift in earning assets mix from securities to loans, which tend to be higher yielding than securities, helped boost NIM. The median loan-to-assets ratio has surged from 62.8 percent in 2003 to a historically high 67.1 percent in 2005.

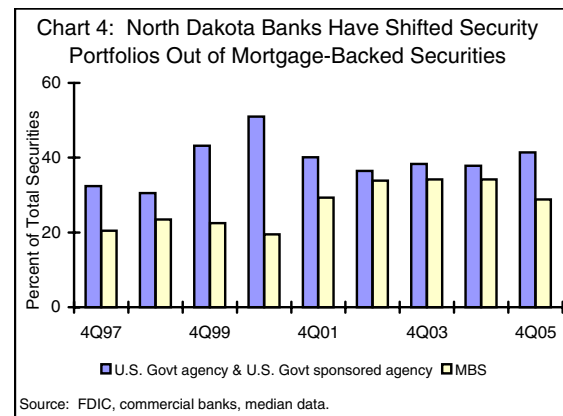
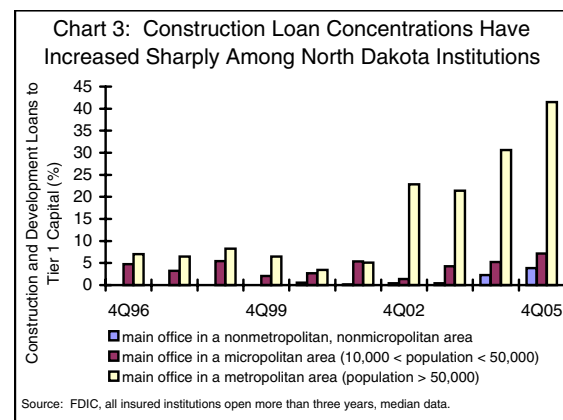
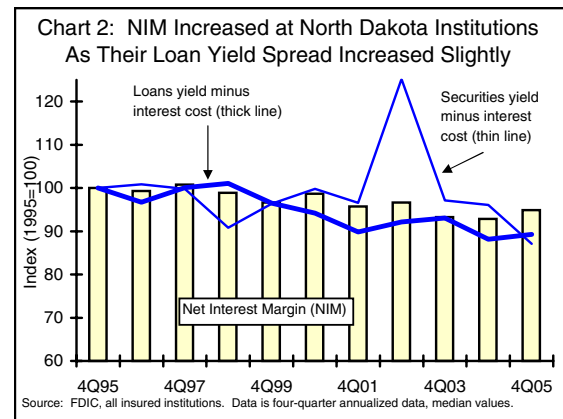
### North Dakota institutions reported sharp increases in construction and development loan (C&D) concentrations.

- Insured institutions, particularly those headquartered in the state's larger urban markets, reported strong growth in C&D lending in 2005, boosting C&D concentrations to new highs (see Chart 3). This growth mirrored moderate growth in North Dakota's construction sector. This type of loan tends to have higher risk but also yields higher returns.
- Although state C&D concentrations have increased, they remain subdued relative to national figures. Nationally, the median C&D concentrations for metropolitan and micropolitan areas are 61 percent and 28 percent, respectively.

### Securities portfolios held by North Dakota commercial banks have depreciated.

- Rising interest rates reduced opportunities for securities gains reported by the state's commercial banks and contributed to net depreciation in securities portfolios of 1.3 percent in 2005 compared with 0.04 percent appreciation in 2004.

- Concerned about extension risk because of historically low mortgage rates, North Dakota bankers have replaced some mortgage-backed securities with U.S. Government agency securities and U.S. Government-sponsored agency securities (see Chart 4).
- Some of these new securities are structured notes that carry relatively lower effective interest rates but reprice upward if long-term rates increase. With the flattening yield curve brought on by higher short-term rates, many of those structured notes have declined in value as their rates have not stepped up.



<sup>2</sup>Office of Electricity Delivery and Energy Reliability (OE), U.S. Department of Energy, *Final Gulf Coast Hurricanes Situation Report (#46)*, January 26, 2006.

## North Dakota at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.0%	1.8%	2.0%	1.6%	0.9%
Manufacturing (7%)	3.2%	3.8%	6.5%	4.6%	-0.6%
Other (non-manufacturing) Goods-Producing (6%)	3.8%	3.2%	5.5%	7.6%	5.4%
Private Service-Producing (65%)	2.3%	1.9%	2.0%	1.6%	0.5%
Government (22%)	0.1%	0.1%	-0.5%	-0.9%	1.4%
Unemployment Rate (% of labor force)	3.3	3.4	3.6	3.5	3.6
<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	7.4%	2.4%	2.0%	8.5%
Single-Family Home Permits	-0.2%	9.7%	2.1%	6.9%	26.4%
Multifamily Building Permits	230.1%	-64.1%	-29.1%	9.6%	-9.4%
Existing Home Sales	-7.2%	19.3%	13.4%	12.4%	4.9%
Home Price Index	8.1%	9.5%	9.3%	7.7%	5.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	7.35	5.94	3.29	3.47	3.45

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	99	99	103	103	104
Total Assets (in millions)	16,719	16,691	15,413	15,413	20,762
New Institutions (# < 3 years)	1	1	1	1	0
Subchapter S Institutions	58	58	53	53	49
<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.53	1.34	1.52	1.52	1.75
ALLL/Total Loans (median %)	1.45	1.42	1.56	1.56	1.61
ALLL/Noncurrent Loans (median multiple)	3.08	2.29	2.69	2.69	2.17
Net Loan Losses / Total Loans (median %)	0.08	0.01	0.03	0.07	0.12
<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.44	9.30	9.60	9.60	9.16
Return on Assets (median %)	1.00	1.41	1.03	1.13	1.13
Pretax Return on Assets (median %)	1.32	1.73	1.32	1.48	1.47
Net Interest Margin (median %)	4.33	4.38	4.24	4.15	4.17
Yield on Earning Assets (median %)	6.51	6.40	5.85	5.66	5.94
Cost of Funding Earning Assets (median %)	2.13	2.04	1.56	1.49	1.72
Provisions to Avg. Assets (median %)	0.03	0.04	0.08	0.08	0.13
Noninterest Income to Avg. Assets (median %)	0.48	0.46	0.50	0.50	0.53
Overhead to Avg. Assets (median %)	3.12	2.67	3.18	2.86	2.87
<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	67.1	69.3	65.6	65.6	62.8
Noncore Funding to Assets (median %)	15.0	17.4	13.6	13.6	12.0
Long-term Assets to Assets (median %, call filers)	11.7	11.6	12.1	12.1	13.7
Brokered Deposits (number of institutions)	28	26	24	24	20
Brokered Deposits to Assets (median % for those above)	3.1	5.2	4.1	4.1	1.8
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	95.4	102.7	95.3	95.3	95.3
Commercial Real Estate	66.4	64.4	60.6	60.6	55.8
Construction & Development	6.7	6.2	5.1	5.1	3.5
Multifamily Residential Real Estate	1.1	0.6	0.4	0.4	0.7
Nonresidential Real Estate	48.4	51.5	50.4	50.4	45.6
Residential Real Estate	45.7	44.7	44.6	44.6	41.8
Consumer	49.8	50.5	51.3	51.3	57.3
Agriculture	321.9	327.8	310.8	310.8	305.3

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Fargo, ND-MN	25	3,412	< \$250 million	87 (87.9%)
Bismarck, ND	14	1,651	\$250 million to \$1 billion	9 (9.1%)
Grand Forks, ND-MN	18	1,422	\$1 billion to \$10 billion	3 (3%)
			> \$10 billion	0 (0%)